THE EFFECT OF APPLICATION OF GOOD CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE WITH THE CAPITAL STRUCTURE AS VARIABLE MODERATING ON COMPANY MANUFACTURING REGISTERED IN IDX

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Abstract:*This study aims to examine and analyze the effect of good corporate governance indicators consisting of institutional ownership, managerial ownership, the audit committee, the independence of the commissioners and the independence of the board of directors is partially affected or simultaneously to the financial performance of the companies listed in the Indonesia Stock Exchange and also to test and analyze whether the ability of capital structure may moderate the relationship between good corporate governance variables with an indicator that consists of institutional ownership, managerial ownership, the audit committee, the independence of the commissioners and the independence of the board of directors at companies listed Indonesia Stock Exchange. The population in this study are all manufacturing companies in the Indonesia Stock Exchange. Of the 143 companies as population samples taken as many as 20 companies were determined by purposive sampling method. The analytical method used is multiple linear regression analysis and residual test. Results of testing the first hypothesis is partially shows that institutional ownership and managerial ownership have a significant effect on financial performance, while simultaneously showing that variable institutional ownership, managerial ownership, the audit committee, the independence of the commissioners and the independence of the board of directors affect the financial performance. The second hypothesis testing showed that the capital structure is not able to moderate the relationship variables institutional ownership, managerial ownership, the audit committee, the independence of the commissioners and the independence of the board of directors of the financial performance of companies listed on the Indonesia Stock Exchange.*

Keywords: *financial performance, good corporate governance, institutional ownership, managerial ownership, the audit committee, the independence of the board of commissioners, the independence of the board of directors, and capital structure*

I. INTRODUCTION

In determining investment decisions within a company, it is important for potential investors to know the conditions of financial performance tersebut.Media that can be used to view the financial performance of the company is a financial report by performing financial statement analysis that aims to provide information regarding the financial position and changes in the financial position of a company which is useful for a number of users of financial statements in decision making.

According to Arifin (2005), in his article submitted to the Senate Session of the University of Diponegoro University in 2005, it was stated that Good Corporate Governance (GCG) is a very useful for the users of financial statements in decision making because of the principles of transparency and accountability, and presentation of accounting information qualified and complete.

Furthermore Arifin (2005) states that GCG is a very useful for users of financial reporting in decision-making because of the principles of transparency and accountability, as well as presentation of quality accounting information and complete.

Research The Indonesian Institute for Corporate Governance (IICG), 2002, found that the main reason for companies implementing GCG is regulatory compliance. The Company believes that the implementation of GCG is another form of business ethics and business ethics that has long been the company's commitment, and the implementation of GCG related to the improvement of corporate image. Companies that practice GCG will experience improved image, and increased corporate value.

This is supported by a survey conducted by the Asian Corporate Governance Association (ACGA) that 11 countries in Asia to be comparable and said to follow international standards must get an 80% value. It can be seen that Singaporeans with 69% value still need a long way to reach 80%. Moreover, Indonesia only reached half of the target of 37% (Asian Corporate Association, 2012).

One of the problems that exist in corporate governance is about planning, coordination, mandating and how to take the company's economic policy by the stakeholders in the company. Each company has its own mission vision. Of course with the vision of the mission, the company has a direction and purpose. But to achieve this, strong cooperation among stakeholders is required and certainly with good corporate governance.

Stakeholders in the company include institutional ownership, managerial ownership, audit committee, independent board of commissioners, independent board of directors, and others. All of these factors are suspected to have an effect on the determination of capital resources.

II. LITERATURE AND DEVELOPMENT OF HYPOTHESES

2.1. Financial performance

According to Horn (1998) Financial performance is a measure of corporate achievement then profit is one of the tools used by managers. Financial performance will also provide an efficiency picture of the use of funds on the results will benefit can be seen after comparing net income after tax.

2.2. Good Corporate Governance (GCG)

The Organization for Economic Development and Development (1999) defines corporate governance as a structure by which shareholders, commissioners and managers develop corporate objectives and means to achieve those goals and oversee performance. GCG is essentially about a system, process, and set of rules governing relationships between various stakeholders especially in the narrow sense of the relationship between shareholders, board of commissioners, and boards of directors for the achievement of organizational goals. GCG is intended to regulate these relationships and prevent significant mistakes in corporate strategy and to ensure that errors can be corrected immediately.

2.2.1. Institutional Ownership

Institutional ownership is the ownership of shares of companies owned by institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership (Tarjo, 2008). Institutional ownership may be referred to as institutional investors, often called sophisticated investors.

2.2.2. Managerial ownership

According to Wahidahwati (2001) Managerial ownership is a shareholder of management who actively participate in corporate decision making. Managerial ownership implies a manager's dual role, that is, managers act as shareholders. As a manager as well as shareholders do not want the company in a state of financial difficulties even went bankrupt.

2.2.3. Audit Committee

The Indonesian Audit Committee (IKAI) association defines the audit committee as a professional and independent working committee established by the board of commissioners and, therefore, its duty is to assist and strengthen the functioning of the board of commissioners (or supervisory board) in carrying out the oversight function of the financial reporting process , risk management, audit implementation and implementation of corporate governance in companies.

2.2.4. Independence of the Board of Commissioners

Fama and Jensen (1983) argue that independent commissioners may act as mediators in disputes between internal managers and oversee management policies and advise management. Independent commissioner is the best position to carry out monitoring function in order to create GCG company.

2.2.5. Independence of the Board of Directors

According to Yusrizal (2011) the board of directors is the organ of the company authorized and fully responsible for the management of the company for the benefit of the company, in accordance with the intent and purpose of the company and representing the company, both inside and outside the court in accordance with the provisions of the articles of association. The independent director shall replace the term of Non-Affiliated Director based on the Decision Letter of the Board of Directors of the Indonesia Stock Exchange Number Kep-00001 / BE / 01-2014 regarding the amendment to Rule Number I-A concerning the listing of shares and Securities that are equity in addition to shares issued by listed companies.

2.3. Capital Structure

According to Weston and Brigham (2005), the targeted capital structure is the mix or mix of debt, preferred stock, ordinary shares the firm wants in its capital structure. The optimal capital structure is a combination of equity that maximizes the company's stock price.

III. CONCEPT AND HYPOTHESES FRAMEWORK

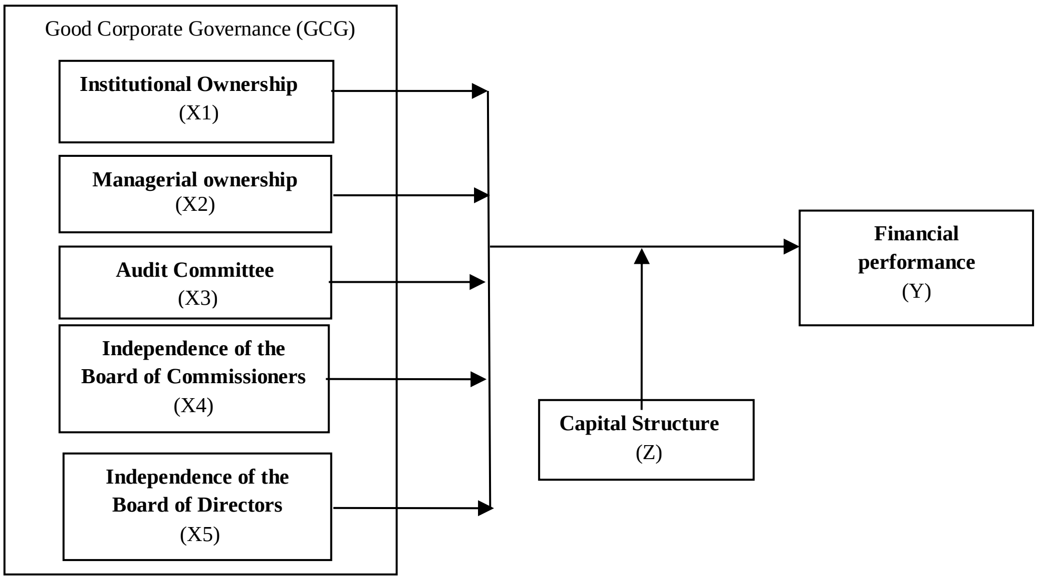

Figure 1. Conceptual Framework

Based on the above concept framework, the hypothesis in this study are as follows:

H1: Implementation of good corporate governance consisting of institutional ownership, managerial ownership, audit committee, board of commissioner independence, and independence of the board of directors influence the financial performance.

H2: Capital structure moderates good corporate governance relationship consisting of institutional ownership, managerial ownership, audit committee, board of commissioner independence, and board independence on financial performance at manufacturing companies listed on BEI.

IV. METHODOLOGY

This research is a causal research (Causal research). The research population of 143 manufacturing companies listed on the Indonesia Stock Exchange in 2012 -2015. Companies sampled in this study were selected based on certain criteria (purposive sampling) .Therefore, the sample in the study were as many as 20 (twenty) manufacturing companies listed on the

Indonesia Stock Exchange which has data on institutional ownership, managerial ownership, the audit committee, the independence of the board of commissioners, and the independence of the board of directors. This study uses secondary data types sourced from Indonesia Stock Exchange. Secondary data collection method using documentation method. Data analysis methods used include descriptive statistics, classical assumption test, multiple linear regression model and multiple linear regression model moderating with residual test. The model of the regression equation is:

1. The model for the First hypothesis (H1)

$$\mathbf{Z = a + b1X1 + b2X2 + b3X3 + +b4X4 + b5X5 +} \boldsymbol{e}$$

2. Model for Second hypothesis (H2)

$$\mathbf{|e| = a +} \boldsymbol{b_6}\mathbf{Y}$$

Where :

Y	= Financial Performance
Z	= Capital Structure
a	= Constants
b1-b5	= Regression coefficient variable X1X5
b6	= moderating variable regression coefficient
X1	= Institutional Ownership
X2	= Managerial Ownership
X3	= Audit Committee
X4	= Independence of the Board of Commissioners
X5	= Independence of the Board of Directors
| e |	= Error

V. RESULT AND DISCUSSION

5.1 Descriptive Statistics

Descriptive statistical analysis is used to perform the process of data selection, so that the data are analyzed has a normal distribution.

Table. 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y	80	-20,80	74,84	4,8508	10,26696
X1	80	,13	83,00	52,7136	22,31727
X2	80	,92	77,57	22,1306	20,01883
X3	80	3,00	4,00	3,0500	,21932
X4	80	1,00	3,00	1,2750	,50253
X5	80	1,00	2,00	1,0250	,15711
Valid N (listwise)	80				

Source: Research Results, 2016 (data processed)

Based on the results of descriptive statistics shown show that the data to be used in this study vary widely. This indicates that this research data may not be normally distributed.

5.2 Classic Assumption Test

Once the problem is found then transformed data by using data transformation technique through SQRT or square root so that it can solve the problem and meet the requirements of classic assumption test (Ghozali, 2016). The result of the transformation is as follows:

1. Normality Test

Normality test can also be done by Kolmogorov-Smirnov statistic test which is the most valid test above normality. This test is performed on the value generated from each variable with the result of significance value (Asymp Sig. (2-tailed)) is 0.172> 0.05 This states that the data is normally distributed.

2.Multicolinearity test

The multicollinearity test showed that the independent variables had a greater tolerance value than 0.1 and VIF smaller than 10. It can be concluded that between the free varabel did not experience symptoms of multicollinearity.

3. Autocorrelation Test

The autocorrelation test using Durbin-Watson (D-W) test shows the value of 1.852 between the values 1.7551 to 1.8996 so it can be concluded that there is no autocorrelation in this research variable.

4. Heteroscedasticity Test

It can be seen in the Scatterplot image that the points are spreading randomly and have been spread either above or below 0 (zero) on the Y axis so it can be concluded that there is no heteroscedasticity in the regression model.

5.3. Hypothesis Testing First

1. Coefficient Determination Test Results

Table 2. Test Results of Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,523[a]	0,273	0,199	1,10151	1,852

a. Predictors: (Constant), SQRTX1, SQRTX2, SQRTX3, SQRTX4, SQRTX5

b. Dependent Variable: SQRTY

Source: Research Results, 2016 (data processed)

Based on Table 2 the value of Coefficient (R) of 0.199 which shows the magnitude relationship between variables with the coefficient of determination (Adjusted R square) of 0.199 or 19.9%. This means that the variables of institutional ownership, managerial ownership, audit committees, board independence and board independence can explain financial performance variables by 19.9% while the remaining 80.1% are explained by other variables beyond this estimation model.

2. Significant simultaneous (Test Statistic - F)

Table 3 . Statistical Test F

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26,89	6	4,482	3,694	,003[b]
	Residual	71,586	59	1,213		
	Total	98,477	65			

a. Dependent Variable: SQRTY

b. Predictors: (Constant), SQRTX1, SQRTX2, SQRTX3, SQRTX4, SQRTX5

Source: Research Results, 2016 (data processed)

Based on Table 3 it is known that the significant value of 0.003 is smaller than 0.05 and Fcount> Ftable (3.694> 2.33) then H1 is accepted so it can be said that corporate governance with indicators consisting of institutional ownership, managerial ownership, audit committee, board independence commissioners and the independence of the board of directors influence simultaneously on financial performance.

3. Partial Significant Test (Test Statistic - t)

Table 4 Statistical Test Results t

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	10,698	6,293		1,700	,094		
	SQRTXI	-,337	,125	-,512	-2,687	,009	,340	2,943
	SQRTX2	-,413	,114	-,615	-3,620	,001	,426	2,346
	SQRTX3	-2,601	2,955	-,119	-,880	,382	,676	1,479
	SQRTX4	,750	,838	,115	,894	,375	,747	1,339
	SQRTX5	,339	2,754	,014	,123	,902	,947	1,056

a. Dependent Variable: SQRTY

Source: Research Results, 2016 (data processed)

Based on the calculation as in table 4 then obtained the following equation:

Y = 10,698 - 0,337SQRTKI - 0,413SQRTKM–2,601SQRTKA + 0,750SQRTIDK + 0,339SQRTIDD

The interpretation of the multiple linear regression equation above is as follows:

a. Constants

Constanta (α) is worth 10,698 meaning that if there is no influence of variable of institutional ownership, managerial ownership, audit committee, independence of board of commissioner and independence of board of directors equal to zero then financial performance will remain equal to 10,698 at manufacturing company listed on BEI during 2012-2015.

b. Institutional Ownership

Variable institutional ownership value -0.337 means that each increase of institutional ownership of 1%, then there will be a decline in financial performance of 0.337 or 33.7% assuming other variables are considered constant. The significance of institutional ownership variable is 0,009 or 0,9% <α = 5%, and t-count <t-table (-2,687 <1,664) H1 is accepted where, institutional ownership is partially significant and negative to financial performance.

c. Managerial ownership

Managerial ownership variable is -0,413all value of each managerial ownership increase of 1%, then there will be a decrease in financial performance of 0.413 or 41.3% assuming other variables are considered constant. The significance of managerial ownership variable is 0,001 or 0,1% <α = 5%, and t-count <t-table (-3,620 <1,664) H1 is accepted, where managerial ownership is partially significant and negative to financial performance.

d. Audit Committee

Audit committee is valued -2601, meaning that each variable increase audit committee of 1%, then there will be a decrease in financial performance of 2.601 or 26.01% assuming other variables are considered constant. The significance of the audit committee variables is 0.382 or 38.2%> α = 5%, and t-count <t-table (0.880 <1.664), H1 is not accepted, whereby partially audit committee has no significant and positive effect on financial performance.

e. Independence of the Board of Commissioners

The independence variable of the board of commissioners is 0.750, meaning that each increase in the independence of the board of commissioners is 1%, then there will be an increase in financial performance of 0.750 or 75% assuming other variables are considered constant. The significance of the independence variables of board of commissioners is 0.375 or 37.5%> α = 5%, and t-count <t-table (0.894 <1.664) then H1 is not accepted whereby the independence of the board of commissioners is partially insignificant and positive to financial performance.

f. Independence of the Board of Directors

The independence variable of the board of directors is worth 0.339, it means that every increase of the directors' self-dependent variable is 1%, there will be an increase in the performance of 0.339 or 33.9% with the assumption that other variables are considered constant. The significance of the independence variables of the board of directors is 0.902 or 90.2%> α = 5%, and t-count <t-table (0.123 <1.664) so H1 is not accepted whereby, the independence of the board of directors is partially insignificant and positive to financial performance.

5.4 Second Hypothesis Testing

Moderating Variable Regression

Table 5 Residual Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	,422	,068		6,199	,000		
	SQRTY	-,010	,026	-,049	-,396	,693	1,000	1,000

a. Dependent Variable: AbsRes_1

Source: Research Results, 2016 (data processed)

Based on Table 5.11 and Table 5.12 can be seen the equation of residual test results:

$$| e | = -0,049-0,010Y$$

Table 5 illustrates a significant value of 0.693 greater than α = 0.05 with negative parameter coefficient value is -0.049. The results showed that the regression coefficient of financial performance is negative and not significant. It is clear that although the value of the negative parameter coefficient, the value is not significant or greater than 0.05, the capital structure can not moderate the relationship between GCG variables described by the variable of institutional ownership, managerial ownership, audit committee, the independence of the board of commissioners and the independence of the board of directors to the capital structure.

VI. CONCLUSIONS, LIMITATIONS AND RESEARCH SUGGESTIONS

6.1 Conclusions

Based on the results of data analysis and discussion conducted in the previous chapter, then this research yields some conclusion as follows:

1. Based on the simultaneous test results, the ownership of the institution, managerial ownership, audit committee, board of commissioner independence and board independence have a significant

influence on the value of the company in the manufacturing company listed on the Indonesia Stock Exchange during the period 2011-2015. Based on the partial test result, only institutional ownership and managerial ownership have a significant and negative influence on financial performance, while audit committee, board independence and board independence partially have no significant effect on financial performance.

2. Based on the results of moderating testing shows that the regression coefficient of the dependent variable of financial performance is negative and not significant. The result of the moderation test obtained the result that the capital structure can not moderate the ownership of the institution, managerial ownership, audit committee, the independence of the board of commissioners and the independence of the board of directors to the financial performance.

6.2 Limitations of Research

This study has several limitations, namely:

1. Capital structure as moderating variable in this research can not moderate the influence of independent variable to dependent variable.
2. The ability of independent variables in explaining the dependent variable is only 19.9%.
3. Selection of research objects only use manufacturing companies listed on the Indonesia Stock Exchange during the period 2012-2015 as many as 20 companies.

6.3 Suggestions

Based on the results of research and conclusion as mentioned above, the following suggestions can be made:

1. For the next researcher is suggested to use other research variables as moderating variable. Researchers can then use the variable growth of the company as a moderating variable.
2. The number of independent variables should be added because this study is only able to explain 19.9% to financial performance and 80.1% more described other independent variables that are not examined in this study. Researchers can then use other variables that can affect financial performance such as company size, current ratio and other variables.
3. For further researchers who want to do further research that resembles this research is suggested to use the object of research at other companies listed in Indonesia Stock Exchange, so it can give better results to the problem under study.
4. For the management of companies and investors, it is expected that this research can be used as material considerations and evaluation before the company sets new policies to improve financial performance as well the company's performance will be viewed favorably by potential investors.

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